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Chairman: Mr. Effah-Apenteng (Ghana)
Chairman of the Advisory Committee on Administrative and Budgetary Questions: Mr. Mselle

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The meeting was called to order at 10.05 a.m.

Agenda item 120: Financial reports and audited financial statements, and reports of the Board of Auditors

(b) Voluntary funds administered by the United Nations High Commissioner for Refugees
(A/56/5/Add.5, A/56/66 and Add.1, A/56/132 and A/56/436)

1. **Ms. Acorda** (United Nations Board of Auditors), introducing the report of the Board of Auditors on the audited financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 2000 (A/56/5/Add.5) and the report of the Board of Auditors on the implementation of its recommendations (A/56/132) on behalf of the Chairman of the United Nations Board of Auditors, said that the Board had had to qualify its audit opinion on the financial statements of the Office of the United Nations High Commissioner for Refugees (UNHCR) based on a limitation of scope in respect of a total of \$43.5 million of implementing partner expenditure. For the audit year 2000, the Board had attempted to obtain audit assurance from the internal control systems of UNHCR in order to validate implementing partner expenditures instead of relying only on the audit certificates it had received. It had considered, however, that the uncertainty regarding the expenditure incurred by some implementing partners needed to be reflected in the Board's current audit opinion.

2. UNHCR had secured independent audit certificates to cover \$330 million, or 79 per cent, of 1999 expenditures incurred by implementing partners and had taken action to strengthen controls over 42 major implementing partners, following the identification of significant systemic weaknesses by the Office of Internal Oversight Services (OIOS). The income of UNHCR had declined by 28 per cent since 1996 and reserves and fund balances had declined by 53 per cent, as at 31 December 2000. UNHCR had therefore taken action to limit expenditure levels to the level of expected income. Expenditures of \$781,651 had been incurred for the purchase of unnecessary modules of its integrated system project. In selecting a contractor to implement the project, UNHCR had rejected a bid of \$8.9 million in favour of one of \$17.9 million, even though the more expensive bid had been

judged just three percentage points better than the lower bid. In some countries visited by the Board, UNHCR had engaged in activities such as infrastructure development, including road building and bridge construction, designed to assist the whole population rather than focusing on the specific needs of refugees. In 2001, however, UNHCR had initiated a review to ensure that priority was given to its core mandate within the limits of expected donor contributions. Lastly, the Board noted that UNHCR had yet to establish a reliable system for establishing accurate information on the size and characteristics of the refugee population.

3. In keeping with its normal practice, the Board would follow up on the implementation of its recommendations, some of which had already been implemented by UNHCR.

4. The report of the Board on the implementation of its recommendations summarized the results of its review of actions taken by the audited organizations to implement the Board's recommendations and the extent to which the organizations had complied with the provisions of General Assembly resolution 52/212 B, particularly with respect to the need for specification of timetables for the implementation of recommendations, the disclosure of office holders to be held accountable, and the establishment of an effective mechanism to strengthen oversight in regard to the implementation of audit recommendations. The report covered 15 organizations on which the Board reported on a biennial basis and included general comments by the Board based on its own follow-up activities and on the reports of the Secretary-General on the implementation of the recommendations of the Board of Auditors on the United Nations and its funds and programmes for the biennium ended 31 December 1999 (A/56/66 and Add.1). It addressed those recommendations that were under implementation, those that had not been implemented and those that had been overtaken by events and therefore could not be implemented.

5. The Board's review disclosed that in the current reporting period only one of the 15 organizations had not included timetables for the implementation of the majority of recommendations. The Board recommended that the organization in question, the United Nations Joint Staff Pension Fund (UNJSPF) should comply with the requirement to include timetables for the implementation of the Board's recommendations.

6. With reference to 1998-1999, the International Criminal Tribunal for Rwanda was the only one out of 15 organizations that had not provided the Board with information on office holders to be held accountable for the implementation of the majority of recommendations. The Board recommended that the Tribunal should comply with the requirements to identify office holders responsible for implementing recommendations.

7. In general, the organizations had continued to operate effective mechanisms to strengthen oversight in regard to the implementation of audit recommendations. Of the 208 recommendations that had been made in respect of the 15 organizations covered in the report, 130 had been fully implemented, 72 were under implementation, 1 had not been implemented and, in the remaining 5 cases, the organizations had not been able to implement the recommendations, as they had been overtaken by events.

8. The Board took note of the two requests for action contained in the report of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) on financial reports and audited financial statements and reports of the Board of Auditors (A/56/436). Concerning the recommendation of ACABQ that UNHCR should be audited biennially, the Board would renew discussions with UNHCR during the next audit cycle and report on the outcome of those discussions in its report to the General Assembly at its fifty-seventh session. With regard to the request that the Board should concentrate, in its reports on the implementation of its recommendations, on indicating the extent to which such recommendations had been implemented and on their impact, the Board would address the concerns of ACABQ in its next report on the subject, following consultations with the administration.

9. **Mr. Connor** (Under-Secretary-General for Management), introducing the report of the Secretary-General on the implementation of the recommendations of the Board of Auditors on the accounts of the United Nations and its funds and programmes for the biennium ended 31 December 1999 (A/56/66 and Add.1), said that the Administration attached great importance to the timely implementation of the recommendations of the Board of Auditors. For example, in response to the Board's recommendation that clear guidelines should be established to determine the circumstances under

which advances could be made by the Office for the Coordination of Humanitarian Affairs from the unearmarked Disaster Relief Assistance Fund, a financial task force had been established within the Office for the Coordination of Humanitarian Affairs to monitor, on a regular basis, the status of the unearmarked account, review requests for unearmarked funds and make recommendations on the allocation of such funds on the basis of established criteria. Also, following the Board's recommendation that there should be closer coordination between the General Legal Division and the Procurement Division in contract preparation and approval, the Procurement Division and the General Legal Division now held regular meetings to review the work programme and the status of procurement exercises requiring legal assistance.

10. The administration took note of the recommendation contained in the report of ACABQ that the reports of the Secretary-General on the implementation of the recommendations of the Board should focus less on describing how the Administration intended to implement the Board's recommendations and instead indicate briefly the actions taken and results achieved. It should be borne in mind, however, that the implementation of recommendations was often a series of processes the results of which could be measured only over a period of time. Responsibility for the implementation of recommendations, moreover, lay with department heads and programme managers. The Secretariat, however, would provide assistance where needed and continue to monitor the progress of funds and programmes in the implementation of the Board's recommendations.

11. **Mr. Ronse** (Belgium), speaking on behalf of the European Union and the associated countries Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia and Turkey, said that the European Union approved the report of the Board of Auditors on the audited financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees as well as the report of ACABQ on that report. The Union was pleased to note that UNHCR had succeeded in reducing by \$186.5 million the level of current- and prior-year expenditure for which sub-project monitoring reports had not been received. It noted, however, that the Board had qualified its audit opinion on the financial statements of UNHCR on account of a

number of irregularities that had existed for several years as well as its identification of serious inadequacies in the verification and validation of some \$32 million of expenditure incurred by implementing partners. It noted, further, that UNHCR and the Board had been denied access to the accounts of some implementing partners.

12. While the European Union welcomed the fact that UNHCR had succeeded in securing independent audit certificates to cover \$330 million of expenditures incurred by implementing partners during 1990, it believed that measures should be taken to improve the quality of the certificates. The administration of UNHCR should also take prompt and effective measures to ensure that the justified recommendations of the Board of Auditors for improved monitoring and more stringent application of accounting rules were put into effect by local offices and implementing partners.

13. The deteriorating financial situation of UNHCR was a matter of concern and the Office should take action to limit expenditure levels to the level of expected income. The management of information technology, in particular, of the integrated system project, was another area of concern. The European Union regretted the lack of a prior assessment of the advantages of the new system, the high cost of certain unnecessary purchases and the fact that, after the expenditure of \$8.7 million, the integrated system project remained non-operational.

14. The European Union noted with satisfaction, however, that the vast majority of the 15 organizations listed in the report of the Board of Auditors had substantially improved their rate of implementation of the Board's recommendations compared with the biennium 1996-1997. It would nevertheless be useful if the reports of the Board and of the Secretary-General indicated the results achieved in the implementation of the Board's recommendations.

15. **Ms. Rodsmoen** (Norway) said that her delegation had repeatedly expressed concern about the over-reliance of UNHCR on voluntary funding from a small group of countries, with only 10 countries providing 90 per cent of the contributions. As one of the major contributors, Norway was concerned about the extent to which extrabudgetary resources were used to finance core activities.

16. Her delegation regretted that, once again, the Board of Auditors had had to qualify its audit opinion

on the voluntary funds administered by UNHCR. However, it was pleased with the resolute response of UNHCR to the Board's recommendations. Both the Board and UNHCR were to be commended for having followed up on recommendations from previous years. The audit pointed to the need for stricter control of the operations of field offices and implementing partners. Her delegation was concerned about the Advisory Committee's comment that some implementing partners had allegedly denied access to their accounting records (A/56/436, para. 6). It trusted that UNHCR would continue to introduce new mechanisms for dealing with such practices and hoped that the measures to be taken to improve expense reporting and control of the payments made to implementing partners would have the desired results.

17. UNHCR had accepted the Board's recommendation with respect to the appropriateness of engaging in projects that did not directly assist refugees (A/56/5/Add.5, para. 11 (e)), in line with the High Commissioner's policy of distinguishing between core and non-core activities. However, that distinction should serve only as a guide as to the part UNHCR could play in the international division of labour and should not be used as an excuse for neglecting the Office's non-core activities. It was somewhat insular to criticize UNHCR for efforts that benefited the entire local community, both refugees and non-refugees. There was a need to coordinate the efforts of various international organizations for the benefit of those they were supposed to serve, rather than to focus narrowly on their separate mandates. UNHCR had a special responsibility to coordinate its efforts to provide durable solutions for refugees; such coordination was very much a core function.

18. **Ms. Wynes** (United States of America) said that the Board of Auditors, as the external oversight body for the United Nations and its specialized agencies, had an essential role to play in the ongoing efforts to improve financial management and accountability for the Organization's resources. In the report before the Committee (A/56/5/Add.5), the Board recommended, *inter alia*, that the oversight of field offices should be strengthened, that expenditure associated with projects should be reviewed and that the integrated information system project should be implemented expeditiously. Those important recommendations, when implemented, should improve the operational effectiveness of UNHCR.

19. She welcomed the complimentary tone of the report, which reflected the positive working relationship between the Board of Auditors and UNHCR. She noted, however, that the Board had had to qualify its audit opinion because UNHCR had been unable to provide assurances that \$96 million paid in advances to its implementing partners could be accounted for as at 31 December 2000. UNHCR had succeeded in reducing the backlog of sub-project monitoring reports to \$8.5 million as at June 2001; her delegation welcomed those efforts. However, it noted that \$35 million of other expenditure incurred by implementing partners could not be validated. That meant that there was a total of \$43.5 million for which UNHCR could not fully account.

20. Her delegation expected UNHCR to be more stringent in holding field managers accountable. It would like to have information on what steps had been taken to strengthen oversight at the field office level, as well as on the status of advances made to implementing partners from 1996 to 2000. It endorsed the Advisory Committee's recommendation that UNHCR should determine whether the failure by one country to provide access to the accounting records of implementing partners reflected a deliberate lack of cooperation and it agreed that, if that was the case, the matter should be addressed by the High Commissioner and, if necessary, be brought to the attention of the Secretary-General.

21. Her delegation endorsed the Board's recommendations that UNHCR should focus its efforts on projects that directly aided refugees and that it should ensure that accurate information was maintained on the size and characteristics of the refugee population. It would like to know what specific steps UNHCR had taken to comply with those recommendations.

22. She shared the Board's concern that after three years of effort and the expenditure of \$8.7 million the integrated information system was still not operational. UNHCR should address the Board's findings in that regard and move ahead with the implementation of the project.

23. It was vital to ensure that the resources provided by Member States and through voluntary contributions to UNHCR were used effectively and for their intended purpose. Her delegation therefore looked forward to the expeditious implementation of the audit

recommendations and endorsed the views by the Advisory Committee in that connection.

24. Regarding the second report of the Secretary-General on the implementation of the recommendations of the Board of Auditors on the accounts of the United Nations and its funds and programmes for the biennium ended 31 December 1999 (A/56/66 and Add.1) and the report of the Board of Auditors on the implementation of its recommendations (A/56/132), she was pleased to note that managers were seeking to improve their operations by implementing the Board's recommendations promptly and urged that those efforts should continue, for a comprehensive audit process must include follow-up and evaluation of the effectiveness of recommendations.

Agenda item 123: Proposed programme budget for the biennium 2002-2003 (*continued*) (A/56/6 and Corr.1, A/56/7 and A/56/16)

25. **Ms. Sultan** (Bahrain) said that her delegation supported the statement made on behalf of the Group of 77 and China concerning the proposed programme and budget for the biennium 2002-2003.

26. While it appreciated the efforts that had been made to introduce results-based budgeting, her delegation endorsed the statements by the Chairman of the Advisory Committee and the Chairperson of the Committee for Programme and Coordination (CPC) concerning the lack of clarity and specificity in the expected accomplishments and in the description of indicators of achievement.

27. The programme of activities and the budget narratives should reflect the priorities of the medium-term plan for the period 2002-2005. In some sections of the budget, for example section 22 (Human rights) and section 8 (Legal affairs), that had unfortunately not been done. Her delegation supported the recommendations of CPC that the expected accomplishments and indicators of achievement for those sections should be reviewed. It was very important to ensure consistency between the expected accomplishments and indicators of achievement in the programme budget and those in the medium-term plan.

28. Her delegation wished to see improvements in results-based budgeting introduced progressively so as to make it an effective tool for administration and for the evaluation of the programme, as well as a means of

ensuring the accountability of those who were responsible for budget implementation.

29. Her delegation considered that the proposed programme budget should be in conformity with the previous one with respect to real resources, despite the significant increase in the Organization's activities in recent years. Any attempt to impose a ceiling on overall budget resources would have an adverse impact on the implementation of the activities and programmes mandated by the legislative bodies of the Organization.

30. Her delegation welcomed the reduction in the vacancy rates budgeted and hoped that the Fifth Committee would adopt the proposed vacancy rate of 5 per cent for Professional posts and 2 per cent for General Service posts. It was important that the vacancy rate should not be used as a means of making economies and reducing the expenditure of the Organization.

31. Bahrain had always paid its contributions to the budget of the Organization in full and on time. Despite the increase in its share of the budget the previous year as a result of changes in the scale of contributions, the number of its nationals in the Secretariat remained almost negligible. An effort should be made to respect the principle of geographical distribution in accordance with Article 101, paragraph 3, of the Charter by recruiting nationals of non-represented and under-represented States in accordance with General Assembly resolution 55/258. Fair and clear criteria should also be established for the promotion of staff.

32. **Mr. Ligaba** (Ethiopia) said that his delegation associated itself with the statement made on behalf of the Group of 77 and China at the Committee's 9th meeting. He was pleased that the proposed programme budget for the biennium 2002-2003 had been submitted in fascicle form and in a timely manner. However, further improvement was needed in areas such as consolidated information on training, standardized reports on publications, workload indicators and proposals regarding the establishment or reclassification of posts.

33. The level of the budget must reflect a correlation between resources and mandated programmes and activities and must therefore be free of any arbitrary ceiling. He was concerned about the freezing of the budget, in recent years, at the level of nearly a decade earlier, and about the negative real growth in the

estimates for 2002-2003. It was possible to provide for real growth in the budget while maintaining efficiency. He appreciated the Secretary-General's efforts to ensure that the priorities of the medium-term plan were reflected in the proposed programme budget. More resources should have been allocated to the sections relating to economic and social issues, particularly regional cooperation for development. The continued high vacancy rates under budget sections that related to the regional commissions and, in particular, Africa, called for additional efforts on the part of the Secretariat to speed up the recruitment process.

34. Extrabudgetary resources made up a significant share of the funding of certain activities, yet those resources should be the exception rather than the rule and should merely complement regular-budget resources. His delegation shared the Advisory Committee's position on the management of posts funded with such resources.

35. Results-based budgeting techniques should be applied gradually and incrementally to the preparation of the proposed programme budget, and particular care should be taken in preparing indicators of achievement, given the Organization's unique features. Since the objectives of the United Nations might not be attained in a single biennium or medium-term plan period, adjustments in future budgets were to be expected.

36. **Ms. Dinić** (Croatia) said that the commitments set out in the Millennium Declaration should be taken into account in the deliberations on the proposed programme budget for 2002-2003. The United Nations would not be able to deal with the global agenda unless it received sufficient budgetary resources and unless the Member States and the Secretariat cooperated fully. She welcomed the introduction of the results-based budgeting format, which would make the Organization's achievements and effectiveness easier to measure. Staff costs must be properly monitored, as the Advisory Committee had indicated. She supported the implementation of management reform, including reforms in the areas of human resources and information technology policy.

37. The proposed programme budget should provide adequate resources for the implementation of mandated activities, in compliance with the priorities set out in the medium-term plan. The United Nations had an important role to play in peacekeeping and peace-building; her delegation supported the second phase of

the peacekeeping reform process, including measures to ensure the safety and security of United Nations staff in the field and at Headquarters. However, since it was important to improve the Organization's capacity to address the interdependence between peace and development, more attention and resources should be devoted to budget sections relating to economic and social development.

38. **Mr. Rodríguez Parrilla** (Cuba) said that his delegation fully associated itself with the statement made on behalf of the Group of 77 and China at the Committee's 9th meeting. He welcomed the timely submission of the proposed programme budget and the improvements made in the budget document. The programme budget was supposed to ensure that the Organization had the capacity to implement the decisions taken by its Member States, and yet, paradoxically, attempts were being made to erode that capacity through the imposition of arbitrary limits. He reaffirmed the principle, endorsed in a number of General Assembly resolutions, that the Organization must be provided with the resources it needed to achieve all established objectives and mandates.

39. His delegation advocated greater financial discipline which it understood as the efficient use by the Secretariat of the human and financial resources available to it, within the limits established by the Financial Regulations and Rules and in conjunction with a genuine system of responsibility and accountability on the part of programme managers. The level of the proposed programme budget was slightly higher than that of the budget outline adopted by the General Assembly in resolution 55/233, and did not cover the budgetary implications of the recommendations of the Panel on United Nations Peace Operations, the report on staff security or other new activities that might arise during the biennium, which must be funded according to the budget process established by General Assembly resolution 41/213. In line with that process, the negotiated level of the budget should be adjusted to take currency fluctuations and exchange rates into account.

40. A recurring theme of the debate had been the idea that priorities should be redefined so that the budget could be kept to a certain level. It seemed that attempts were being made to use the budget to renegotiate the agreement reached on priorities under the medium-term plan, which had been universally accepted as the principal policy directive of the Organization.

Moreover, attempts were being made to set priorities within programmes to reflect specific political interests, despite the relevant decisions of the General Assembly. The budget cuts effected in recent bienniums had shifted the responsibility for decisions on the use of resources from the General Assembly to the Secretariat, with a consequent redefinition of priorities.

41. Under the current proposal, a large share of the Organization's programme of work would continue to be financed from extrabudgetary resources, which had become a primary rather than a complementary source of funding in certain areas. That trend adversely affected the implementation and orientation of programmes, the principle of the collective responsibility of States under the Charter and intergovernmental monitoring of budget performance.

42. The Secretary-General was proposing that 142 new posts should be established, 33 posts should be converted and 19 posts should be abolished. His delegation welcomed the proposal for the establishment of posts that would restore the capacity lost through the implementation of General Assembly resolution 50/214. It would consider each proposal in the light of its programmatic justification, including the proposed reclassifications, although it generally shared the concerns that had been expressed in that regard. The change in the arrangements for UNHCR would entail the redeployment of funding for 218 posts and the provision of a lump-sum grant with which posts would be funded. That arrangement would decrease transparency in the analysis of the Secretariat's staffing. His delegation hoped that corrective measures would be taken to improve the transparency of information in that context. It also hoped that programme managers would fully recognize the need to strengthen staff morale and promote career prospects, and endorsed the comments of the Advisory Committee in that regard (A/56/7, para. 48).

43. His delegation supported the conclusions and recommendations of the Committee for Programme and Coordination and the Advisory Committee on the results-based budgeting format. Future budget proposals should reflect the changes suggested by those bodies and should be fully in line with General Assembly resolution 55/234.

44. The budget proposal once again reflected the Secretariat's tendency to include controversial

activities and concepts which had not been approved by the General Assembly. Consequently, the narrative of section 22 (Human rights) had not been approved by the Committee for Programme and Coordination. His delegation attached great importance to that programme and hoped that it would be possible to reach conclusions acceptable to all, on the basis of established mandates. While his delegation had agreed that specific comments on the various budget sections could be made in informal consultations, it felt that that practice adversely affected the Committee's institutional memory by eliminating the possibility of recording those comments in summary records.

45. **Mr. Halbwachs** (Controller) said he welcomed the positive comments that had been made during the general debate regarding the timely issuance and high quality of the proposed programme budget. The proposed programme budget for the biennium 2002-2003 was the first to use a results-based budgeting format, reflecting the Administration's continuing efforts to adopt a more qualitative approach to the budgetary process. Results-based budgeting was, of course, a work in progress. He therefore welcomed the useful proposals made by the Advisory Committee and the Committee for Programme and Coordination regarding refinements that needed to be made and he looked forward to receiving guidance from the Fifth Committee.

46. Regarding the concern that the Secretariat was becoming top-heavy, he said that the Administration must maintain a viable pyramid in the Organization. Only 54 reclassifications had been recommended, based on the merits of individual posts; together they represented just 0.5 per cent of the total staffing table.

47. As stated by the Secretary-General in the foreword to the proposed programme budget, in formulating the budget proposal, paramount consideration had been given to ensuring that the scope and programmatic content fully addressed the priorities identified by the General Assembly, as set out in the medium-term plan for the period 2002-2005. As to the level of the budget proposal, he noted that, for the past six years, the Secretariat had succeeded in implementing mandated programmes and activities without budgetary growth; organizational reform and efficiency measures and the introduction of new technologies had enabled it to operate more cost-effectively. A total of \$2.6 billion was requested for the biennium 2002-2003, compared with \$2.5 billion in

2000-2001. The former figure included a preliminary amount of \$129.3 million for recosting. The Administration would provide the Committee with a revised amount in early December based on the latest information on rates of exchange and inflation. Taking into account the decline in the relative strength of the United States dollar vis-à-vis the other currencies, it seemed likely that the amount ultimately required would be higher than the preliminary figure. Indeed, once the additional expenditure for peacekeeping support, security needs and the implementation of decisions by intergovernmental bodies had been factored in, the level of the proposed programme budget might well be as high as \$2.7 billion.

48. As the Secretary-General had said in his introductory statement, the Secretariat had been doing more with less. However, further budgetary constraints would seriously compromise its ability to deliver the services expected of it and to fulfil the mandates of the Organization. He trusted that the Committee would bear that point in mind during its consideration of the budget proposal.

Agenda item 122: Programme budget for the biennium 2000-2001 (continued)

Comprehensive study of honorariums payable to members of organs and subsidiary organs of the United Nations (continued) (A/56/311)

49. **Mr. Repasch** (United States of America) said that it was not clear to his delegation why the report before the Committee had been prepared. No such report had been requested and none was needed, since the question of honorariums did not need to be addressed as a matter of urgency. If other delegations wished to consider the report further, there were a number of points that his delegation would be glad to discuss. However, if that was not the case, he saw no need for the scheduled informal consultations.

50. **Mr. Halbwachs** (Controller) said that the General Assembly had last revised the level of the honorariums in 1981. The Administration had been asked to keep the matter under review. The Secretary-General had submitted his previous report on the question two years earlier, following a request by certain members of the organs in question. The Advisory Committee had recommended, in its report on the proposed programme budget for the biennium 2000-2001 (A/54/7), that the Assembly might wish to consider increasing the rates

of the honorariums. The Assembly had not, however, considered the Secretary-General's report and had taken no specific decision on the matter. The Secretariat was therefore seeking a clear answer from the General Assembly as to whether the rates of the honorariums should be revised.

51. **The Chairman** said that it was time for the Committee to take a decision on the question of honorariums. He suggested that, in the light of the clarification provided by the Controller, the scheduled informal consultations should proceed.

52. *It was so decided.*

The meeting rose at 11 35 a.m.